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C O N F I D E N T I A L SECTION 01 OF 04 ROME 000453

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E.O. 12958: DECL: 02/14/2016

TAGS: [PGOV PREL IT IO ITALY NATIONAL ELECTIONS ITALIAN POLITICS](#)

SUBJECT: SCENESETTER FOR PM BERLUSCONI'S VISIT TO  
WASHINGTON, FEBRUARY 27 TO MARCH 1

Classified By: Deputy Chief of Mission Anna Borg for reasons 1.4 (b) and (d).

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SUMMARY  
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1. (C) PM Berlusconi is seeking an election campaign bounce from his carefully timed visit to Washington to address a joint session of Congress and his meeting with the President. Elections are two months away and the campaign is in full gear following President Ciampi's dissolution of parliament on February 11. (Polling will take place April 9 and 10.) Claiming to be slightly ahead in a private poll he commissioned, Berlusconi seeks to outpace the opposition by showing that his pro-U.S. foreign policy has its benefits, and that a close and continuing partnership with world's only superpower is good for Italy.

2. (C) Summary continued. Berlusconi has pushed Italy to be active and visible around the world despite tough budgetary constraints and a gloomy economic outlook that will make future Italian commitments more difficult. The GOI has weathered stiff public opposition to Italy's participation in Iraq, and has made its contributions in Afghanistan a point of national pride. After deploying more troops to the Balkans than any other nation, Italy wants to be more involved in the Balkan political processes and seeks U.S. recognition of its potential good offices in negotiating with Iran on the nuclear issue. GOI reluctance to be tough with Russia is a direct result of Berlusconi's close personal ties with President Putin. This winter's cold snap has sharpened domestic anxieties over the prospect of energy rationing in the midst of the campaign. End summary.

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Final Stretch Before Elections . . .  
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3. (C) US-Italy relations traditionally have been strong regardless of the party in power, but have been especially close under Prime Minister Berlusconi and his center-right coalition government. Despite the ups and downs since 2001, Berlusconi's government has brought remarkable stability to Italian politics. He is the first prime minister since World War II to maintain the same coalition (four parties) for a full legislative term. Berlusconi is trying to keep the opposition on the defensive by accusing them of having a limited vision of Italy's role abroad, poor intra-coalition harmony, and poking at the opposition's perceived weakness on law and order issues. Most published polls show the center-left continues to hold the edge, but observers do not discount Berlusconi's ability to narrow the gap in the run-up to election day. In recent weeks, Berlusconi has managed to set the tone in the campaign debate, exploiting allegations of center-left impropriety in a financial scandal, quickly approving anti-crime and anti-drug legislation in the last days of the legislature, and blitzing the talk show circuit.

4. (C) The nine-party center-left opposition, led by former EU Commission President (1999-2004) and former Italian PM (1996-98) Romano Prodi, lists economic growth, employment, education, tax policy, and the environment as some of its policy priorities. Prodi's coalition has tried to show a united front but is often plagued by internal disputes, which will complicate its ability to govern if elected. If the center-left wins, the opposition's reformist leaders are prepared to reorient Italy's foreign policy more toward the EU, favor multilateral initiatives over bilateral or unilateral ones, and tone down Italy's relations with the US. The center-left, however, is unlikely to radically shift the bilateral relationship. Prodi and his moderate allies continue to signal that the center left will reach out to Washington as it did when Prodi was first prime minister. However, the relative strength on the far left parties will determine his ability to steer a moderate course.

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. . . And The Economy is the Achilles Heel.  
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5. (C) Despite his public boldness in foreign policy,

Berlusconi has not effectively used his solid legislative majority to transform Italy into a more flexible and competitive economy. High public debt, the EU Stability and Growth Pact deficit ceiling, rising social welfare costs, and a stagnant economy, all limit the GOI's ability to increase or sustain Italy's long-term international presence in global hot spots. The current budget foresees a 27 percent reduction in overseas economic assistance and large cuts (to about 0.90 percent of GDP) in the defense budget, including a 20 percent reduction in the peacekeeping budget. Public pessimism over persistent unemployment and complaints over high prices (blamed partly and erroneously on the transition to the euro) are factors that will play into the election and against the Berlusconi government. These critical limitations mean that we should prioritize our requests for Italian troop deployments, economic assistance and reconstruction funds, and other expenditures that could severely outpace Italy's ability to contribute. We should also share our economic best practices to help make Italy more economically vibrant.

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Continued Engagement on Iraq  
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16. (C) Berlusconi's close personal relationship with the President has served as a key factor in maintaining Italian military contributions in Iraq in the face of significant domestic opposition. In addition to being among the top troop contributors in Iraq (with nearly 3,000 troops), and funding a variety of reconstruction projects, the GOI has indicated it will seek to expand its non-military role there, and has offered to lead a Provincial Reconstruction Team (PRT) in Dhi Qar province. The GOI has publicly announced that it will gradually draw down Italian troops, but has said that it will do so only in close consultation with other coalition partners and the Iraqi government, and according to conditions on the ground. The center-left opposition has followed suit, coming close to mirroring the government's strategy.

17. (C) Berlusconi has skillfully taken Iraq off the campaign agenda for the opposition but Italian involvement there remains unpopular domestically. Berlusconi will seek recognition for Italy's role in Iraq, support for its troop drawdown, and a reaffirmation that Italy remains a key partner in establishing Iraq's stability and security. It is important for Italy to stress the success of the Italian presence there, and highlight the civilian aspects of Italian support as Iraqis begin to take ownership of their security. The first-ever trilateral talks with the U.S. and UK on Iraq in late January provided the GOI a much-needed confidence boost because it reinforced Italy's relevance as a key coalition partner. We should thank the Italians for their steadfast support on Iraq and encourage continued consultations as they proceed with their drawdown plans.

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Iran: Bring Us Into the Tent  
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18. (C) The GOI shares U.S. and EU concern over Iran's nuclear aspirations and the anti-Israel rhetoric coming out of Tehran. Italy supports the U.S. "100 percent" on the Iranian nuclear issue, including referral to the UN Security Council, and they continue to stress to the Iranians the need to suspend enrichment activities to restore the confidence of the international community. Both Berlusconi and FM Fini issued sharp public rejoinders after President Ahmadinejad's declarations against Israel.

19. (C) Italians are dismayed, however, by their continued exclusion from the so-called EU-3 negotiations and the more recent "P5 plus 2" meeting in London. As Iran's largest trading partner in Europe and dependent on Iranian oil, Italy believes the stakes are too high not to be included, and they assert they can play a useful role at the negotiating table. The GOI welcomed the meeting in London in late January between Undersecretary of State Burns and MFA PolDir Terzi on Iran. Terzi proposed a "friends of the Secretary General" group to consider next steps on Iran at the UN. We should commend Berlusconi on his government's public stance, and reinforce with him the importance of maintaining a solid international front. We should also underscore our intention to keep engaging Italy on Iran as we did in London.

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Still Active in Afghanistan  
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10. (C) Unlike Iraq, Italy's ISAF participation, with around 2,200 troops, enjoys strong bipartisan political support. In August, Italy took over command of ISAF for a period of nine months. Italy also commands the Provincial Reconstruction Team (PRT) in Herat, supports the Forward Support Base (FSB) under Spanish command, and leads the multilateral effort to

reform the Afghan judiciary. Italy,s total financial support for Afghanistan's September parliamentary elections was four million Euros (about USD 4.8 million). The GOI has made a special effort to insulate economic assistance to Afghanistan from cuts falling heavily elsewhere. That said, even with a smaller pie, the GOI could probably do more to increase Italy's contribution to the post-Bonn reconstruction process. We should thank the Italians for their strong and consistent participation in Afghanistan, despite budgetary constraints, but urge them to find ways to enhance their contributions in Afghanistan as they draw down in Iraq.

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The Balkans Is Our Backyard  
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11. (C) The Italians have been engaged in peacekeeping and stability efforts in the former Yugoslavia since the early 1990s. They regard the Western Balkans to be in their neighborhood and insist on playing a major military and policy role. They currently hold the command of KFOR and EUFOR. A probable referendum on independence in Montenegro and the beginning of negotiations on the future status of Kosovo will present significant challenges to the international community. Italy is prepared to take a leadership role in ensuring the continued stability and security of the region, but is concerned that without close international coordination and U.S. support, Italy's interests will be overlooked. The recent rejection of an Italian as High Representative in Bosnia was seen by the GOI as an indication that neither the major EU powers nor the U.S. have sufficient faith in the GOI to lead the international community in the region. We should give Berlusconi a dual message of appreciation for past efforts and a pledge to remain in close contact as the events unfold in the Balkans.

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Too Cozy With Russia?  
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12. (C) Berlusconi enjoys a close and informal relationship with Russian president Putin. We are concerned that this relationship could weaken international criticism of Russia at a time when the Russian Federation (GORF) is reversing democratic reforms. In November 2005, the GOI was prepared to support GORF demands to remove language from a ministerial-level OSCE declaration calling on Russia to live up to its Istanbul commitments in Moldova and Georgia. In February 2006, during a visit by Russian FM Lavrov, Fini publicly blamed the recent fuel crisis on the Ukraine, despite assurances from contacts at the Italian Ministry of Foreign Affairs that Fini understood the crisis to be primarily the result of Russian negative behavior. We should highlight to Berlusconi that Russia's pattern of resisting democratic change, undermining international organizations, manipulating internal politics in neighboring countries, and using its fuel exports for political purposes, is a threat to global stability and requires direct and sometimes public criticism.

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A Looming Energy Crisis?  
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13. (C) Senior government officials and energy analysts say Italy will likely experience a critical energy shortage this winter because of an unexpected cold spell and miscalculation of Italy's consumption of natural gas. Italy's strategic gas reserves may not be sufficient to generate electricity for the remainder of the winter, according to our sources, and reduced gas flows from Russia have exacerbated the shortage. The problem is made worse because Italy, because of newer, more efficient, gas-fired electric plants, is a net exporter of electricity to other parts of Europe. In a worst-case scenario, analysts say, Italy might stop exporting electricity, passing on shortages to other parts of the EU. Shifting the pain outside Italy may prove more palatable during an election season than incurring the consequences of energy rationing at home.  
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